

18/12/2007

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Withdrawal freeze scares investors

Ben Wilmot

Centro Properties Group froze withdrawals from two of its largest managed funds yesterday, leaving thousands of its investors in the dark and analysts concerned about the fallout across the property sector.

Withdrawals from both the Centro Direct Property Fund and the Centro Direct Property Fund International, which have more than \$4 billion in assets, were suspended yesterday as the group sought to avoid an exit stampede by investors.

Centro unlisted syndicates and funds have about 20,000 investors and the group sought to reassure small investors in the funds.

"These syndicates we believe will continue to operate because they are performing very well," Centro chief executive Andrew Scott said.

He said only in the unlikely event that they had to renegotiate debt facilities would there be any impact of global credit problems.

The group admitted in a statement that the issues outlined in its ASX announcement might lead to a significant increase in withdrawals from the funds, which could have a material impact on each fund's liquidity.

Centro said the suspension was "in the best interests of investors in the funds" and said its shopping centre portfolio was performing well.

PIR director Mark Wist said the suspension could affect confidence in Centro's business model.

"To suspend liquidity because the underlying assets have been severely damaged by investor sentiment sends a quite bad message," Mr Wist said.

"This is almost more serious than what's happened to the stock."

Ominously for investors, Centro said it would undertake a review of the quarterly distributions for DPF and DPFI. Both vehicles have significant investments in Centro's managed funds.

Property analysts said yesterday the Centro freeze could have a massive fallout on the property funds industry.

"This is almost more serious than what's happened to the stock price," one analyst said.

Adviser Edge's head of research, Louis Christopher, predicted that funds flows to direct property could dry up.

"Buyer demand for direct property is likely to reduce," he said.

Mr Christopher said there could be wider implications for the sector.

"The question now has to be raised, what other unlisted property funds out there have short-term lending facilities? I think this is a serious issue," he said.

Property analysts have long criticised the complex structures in which Centro holds its assets, including the use of high levels of debt and cross-holdings among its funds.

According to some analysts, the \$2.5 billion DPF had begun paying distributions out of capital. "That, in our opinion, is certainly a warning sign that something wasn't quite right," one analyst said.

However, many of Centro's MCS-branded syndicates could be relatively unscathed. "The issue for those investors is that it's now looking increasingly likely that Centro is going to have to sell some of its assets."

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